

BUDGET LETTER

		NUMBER:	BL 01-38
SUBJECT:	GENERAL FUND EXPENDITURE REDUCTION MEASURES	DATE ISSUED:	October 25, 2001
REFERENCES:	EXECUTIVE ORDER D-49-01	SUPERSEDES:	

TO: Agency Secretaries
Department Directors
Departmental Budget Officers
Departmental Accounting Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

Agencies and departments are requested to provide a copy of the Budget Letter to their respective legal offices.

In response to the current fiscal situation facing the State, the Governor has issued Executive Order D-49-01 (copy attached). This Order, effective October 23, 2001, imposes a statewide reduction of at least \$150 million of the remaining balance of the 2001-02 General Fund operating expenses and equipment (OE&E) budgeted expenditures, and requires further General Fund savings from past years' disencumbrances. These reduction measures must be implemented immediately.

Agency Secretaries and other cabinet level positions will be responsible for administering and ensuring compliance with the provisions of the Executive Order. For those departments that are not represented by cabinet, the Department of Finance (Finance) will be responsible for ensuring compliance. It will be the responsibility of Finance to mitigate the provisions of Executive Order D-49-01 when modifications may be in the best interest of the State.

This Budget Letter provides instructions on the above mentioned reduction measures.

REDUCTION IN 2001-02 GENERAL FUND OPERATING EXPENSES AND EQUIPMENT

To achieve a minimum \$150 million savings statewide, each entity (Agency, department, board, commission, office, etc.) in the Executive branch of the State government, except University of California and California State Universities, must reduce their 2001-02 General Fund OE&E budgeted expenditures by 10 percent. This reduction applies to both Budget Act and non-Budget Act items. To accomplish this savings, departments are to consider reductions in the following areas:

EQUIPMENT PURCHASES

Reduce, cancel, or postpone the purchase and/or lease of equipment, software for computers, office furniture, and office machines, funded by the General Fund. Departments may contact the Office of Procurement and cancel or amend Purchase Estimates (Std. Form 66) currently in process for which no purchase order has been issued.

CONSULTANT, ATTORNEY, AND PERSONAL SERVICES CONTRACTS

Reduce, cancel, or postpone any new consultant, attorney, and personal services contracts; or cancel any new amendment to any existing contract that increases the amount of the contract, if they are funded from the General Fund. All new or amended contracts for attorney services must be approved by the Agency's Chief counsel or, if the department does not report to an Agency, by the Department of Finance.

TRAVEL

Refrain from traveling for any non-essential purposes. Non-essential travel is travel that is not absolutely essential to continue the operation of the State government, or would not result in a significant benefit to the State. Examples are trips for seminars, conferences, or training.

OTHER MEASURES

In addition to the above cost reduction measures, each entity must reduce other areas in order to achieve the 10 percent reduction in its current year General Fund OE&E budgeted expenditures. Savings generated from canceling and disencumbering current year contracts or purchase transactions may be applied toward the 10 percent reduction. In canceling contracts or other purchase transactions, please follow the guidelines in the following section.

While departments must meet the 10 percent reduction requirement, when evaluating reduction options departments are to give preference to retaining contracts and purchase agreements with California companies and businesses. Cancel contracts or purchase agreements only if they will not result in a significant adverse effect on California's employment or its economy.

1999-00 AND 2000-01 GENERAL FUND DISENCUMBRANCES

Pursuant to the Governor's Executive Order, departments are to review for potential disencumbrance 1999-00 and 2000-01 support appropriations encumbrances, for which goods and services have not been received by October 23, 2001. These encumbrances apply to appropriations from Budget Act or non-Budget Act items. Departments are directed to review all unliquidated encumbrances and the related purchase order, contract, or other form of financial commitment to determine, where permissible by law or regulation, if the department could cancel the transaction without incurring significant charges for damages or penalties. The review also should include consideration of those contracts or purchase agreements that are essential to the operation of the department. Departments reporting to an Agency must consult with the Agency's chief legal counsel for assistance in determining the appropriateness of canceling a contract or purchase transaction. Departments not reporting to an Agency are to consult with their departmental legal counsel.

Upon completion of the review, list on Attachment C (1) all unliquidated encumbrances for fiscal years 1999-00 and 2000-01, (2) amounts for cancelable contracts, and (3) the amounts for remaining contracts that either cannot be legally cancelled, cannot be cancelled without incurring significant charges or damages, or are essential to the operation of the department. In addition, provide justification for the non-cancelable contracts or purchase agreements. For cancelable contracts or purchase agreements, cancel the contract or purchase agreement and disencumber the balance. Please refer to Attachment A for instructions and complete Attachment C for the required information.

As in the OE&E reductions, departments are to give preference to retaining contracts and purchase agreements with California's companies and businesses in order not to have a significant adverse effect California's employment or its economy.

REPORTING

Departments must report current year General Fund OE&E savings on **Attachment B** and return the Attachment to Finance by **November 7, 2001**. After receipt of the information provided on Attachment B Finance will determine if the \$150 million reduction has been achieved. If further information is needed, departments will be notified. However, departments are to implement the reduction measures immediately.

The estimated savings achieved for past years from the disencumbrance of contracts and purchasing documents is reported on **Attachment C** and must be returned to Finance by **November 26, 2001**.

Do not reflect the savings from Attachments B and C in individual department's Planning Estimates, Schedule 10s, or Budget Galley. For the 2002-03 Governor's Budget, Finance will reflect the savings in a statewide item.

Consistent with sound fiscal management and to capture immediate results in the General Fund expenditure totals, all amounts reported as current year General Fund savings and all amounts that have been disencumbered will be proposed to be reverted in subsequent legislation.

EXEMPTIONS FROM THE EXECUTIVE ORDER

The provisions of the Executive Order do not apply to the Legislative and Judicial branches of government. These branches of government are encouraged to participate in the endeavor to reduce their General Fund costs.

The provisions related to the 2001-02 reduction in General Fund OE&E and past years' disencumbrances apply to each entity within the Executive branch of government. The University of California and the California State University System are requested to work with Finance to determine an appropriate level of savings, which will not jeopardize their educational mission.

If you have any questions regarding this Budget Letter, please contact your Finance budget analyst.



B. TIMOTHY GAGE
Director

Attachments

INSTRUCTIONS**ATTACHMENT B—2001-02 Reduction in General Fund Operating Expenses and Equipment**

1. Complete Attachment B to report the planned General Fund OE&E savings (dollars in thousands):

PART I

- Enter the total budgeted amount for OE&E in 2001-02 when the Budget was enacted. This amount includes Budget Act and non-Budget Act items. If there were no changes reflected in the 2001-02 Final Change Book, this amount can be obtained from the 2001-02 Governor's Budget.
- Enter the General Fund portion of the OE&E.
- Calculate the reduction amount by multiplying the General Fund portion of the OE&E by 10 percent (.10). Enter the result of the calculation.

PART II

- Provide the detail for the estimated savings in each area. Enter a brief description that includes the program/activity, contract or purchase agreement that was reduced or cancelled to generate the savings.
- Post the amount of savings in the appropriate category column. (The categories are equipment purchases, consultant/attorney/personal services contracts, travel, or other.)
- Enter Y, N, or P to indicate whether the amount was encumbered. (Y=yes, N=no, P=partial)
- Enter Y, N, or P to indicate if a similar reduction was proposed in the Budget Year reduction drills (3, 5, 10, or 15 percent).
- Provide a contact name and phone number of the appropriate person at the department.
- Completed forms must be signed by the Department Director and Agency Secretary or their designees.
- Completed Attachment B must be returned to Finance by **November 7, 2001**.

ATTACHMENT C—1999-00 and 2000-01 General Fund Disencumbrances

2. After the review of contracts and purchase documents pursuant to Budget Letter 01-38, proceed with the following.
3. Complete Attachment C as follows:
 - In Section 1, list all amounts of unliquidated encumbrances for the 1999-00 and 2000-01 fiscal years. Indicate the document number, vendor name, and post the encumbrance amount in the appropriate fiscal year column.
 - In Section 2, indicate the amount of encumbrances that can be disencumbered. Post the amounts in the appropriate fiscal year column.

- Identify in Section 3 any amounts that cannot be disencumbered. Post the amounts in the appropriate fiscal year column.
- Provide a brief but complete explanation of the reason that a contract or purchase transaction cannot be cancelled.
- Insert additional rows if needed. Make sure the totals are calculated correctly.
- Obtain the Agency Chief Counsel's signature prior to submission to Finance. For departments that do not report to an Agency, obtain the Department Chief Counsel's signature.
- Provide a contact name and phone number of the appropriate person at the department.
- Attachment C must be returned to Finance by **November 26, 2001**.